

VAT RULING: VR 019

DATE: 31 March 2026

ACT : VALUE-ADDED TAX ACT 89 OF 1991 (the VAT Act)
SECTION : SECTIONS 1(1), 7(1) AND 41B
SUBJECT : CONSIDERATION

Preamble

This value-added tax (VAT) ruling is published with the consent of the Applicant to which it has been issued and is binding only upon the South African Revenue Service (SARS) and applies only to the Applicant. This VAT ruling is published for general information. It does not constitute a practice generally prevailing.

1. Summary

This ruling clarifies the VAT obligations related to dental benefit management service fees and dental benefit entitlement.

2. Relevant tax laws

In this VAT ruling, all references to sections hereinafter are to sections of the VAT Act unless otherwise stated. Unless the context indicates otherwise any word or expression in this VAT ruling bears the meaning ascribed to it in the VAT Act.

This VAT ruling concerns the interpretation and application of the following provision of the VAT Act:

- Section 1(1) Consideration

3. Parties to the application

The Applicant is a dental benefit management services limited liability company incorporated in and a resident of the Republic (South Africa).

4. Background and facts

The Applicant offers dental benefit management services to medical aid schemes (the Scheme(s)) and the said Schemes' clients.

The Applicant is accredited by the Council for Medical Schemes as a Managed Care Organisation, that is, it may contract with the Scheme in terms of Regulation 15A of the Medical Schemes Act, 131 of 1998 (the Medical Schemes Act), to provide a managed health care service.

In carrying out its mandate, the Applicant enters into agreements with various Schemes to amongst other things –

- negotiate tariffs;
- process claims;
- pay claims; and
- any other related service,

in respect of the dentistry benefits applicable to the Scheme.

The Applicant set out the pertinent clauses of the contractual arrangements in terms of the Dental Capitation Agreements between the Applicant and the respective Schemes. With regards to the Capitation Fee, the below is noted:

Scheme A	Scheme B	Scheme C	Scheme D
Scheme A pays the Applicant a monthly capitation fee, including VAT, for dental benefits and services during 2023. Payments cover dental claims and include both managed care and claims costs.	Scheme B pays the Applicant a monthly capitation fee, inclusive of VAT, based on actual claims costs and a 10% management fee. Invoices include reconciliations for prior months and the annual capitation fee is determined in arrears, no later than six months after the relevant calendar year .	Scheme C pays the Applicant a monthly capitation fee, including VAT, for dental benefits and services during 2023. Payments cover Scheme C dental claims on all capitated options and include both managed care and claims costs.	Scheme C pays the Applicant a monthly capitation fee, including VAT, for dental benefits and services during 2023. Payments cover Scheme C dental claims on all capitated options and include both managed care and claims costs.

The Applicant demonstrated the arrangement under the Capitation Agreements as follows:

- a) A beneficiary will contract with the Scheme for medical (dental) insurance;
- b) The beneficiary receives medical treatment from a service provider who will render the service to the beneficiary;
- c) After treatment, the service provider will issue its invoice to the Scheme for payment. If the service provider is registered as a VAT vendor, it will levy VAT at 15 per cent and account for output tax to the South African Revenue Service (SARS);
- d) The Applicant (being appointed by the Scheme) will make payment to the service provider from the capitation fee that it received from the Scheme. No input tax will be deducted by the Applicant as the invoice was issued to the Scheme and the payment is merely facilitated by the Applicant on behalf of the Scheme;

- e) The Applicant will charge the Scheme a service fee for its administration and/or management services; and
- f) The Scheme will make payment to the Applicant in respect of services rendered by the Applicant.

5. Conditions and assumptions

This VAT ruling is subject to the Standard Terms, Conditions and Assumptions issued by the Commissioner for SARS, and the provisions of Chapter 7 of the Tax Administration Act 28 of 2011, excluding sections 79(4)(f), (k), (6) and 81(1)(b).

6. Ruling

The binding private ruling issued to the Applicant is as follows:

- a) The fee payable by the Scheme to the Applicant, in accordance with the various Capitation Agreements, will need to be allocated between that portion which is calculated based on the dental benefit entitlement (i.e. those amounts which is essentially for purposes of making payments to the service provider or the member) and that portion which is retained from the capitation fee by the Applicant for providing the dental services management and the managed care to the Scheme.
- b) The amount of the fee which is calculated based on the dental benefit entitlement and which is essentially for purposes of making payments to the service provider or the member will not be subject to VAT as it will not be consideration for a supply of any services and will therefore be regarded as an out-of-scope supply for VAT purposes.
- c) The amount of the fee for providing the dental services management and managed care to the Scheme is in respect of a supply of a service to the Scheme. The Applicant will have to account for VAT at the standard rate under section 7(1)(a).
- d) The Commissioner is unable to make a determination on how much of the capitation fee should be allocated to dental services management and managed care. The Applicant or Scheme must make this factual determination based on the relevant Capitation Agreements.

7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transaction(s) set out above and is effective from 9 September 2024, remaining valid for a period of 3 years from the date of the ruling.